

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Harper Woods, Michigan</u>	County <u>Wayne</u>
Audit Date <u>December 31, 2004</u>	Opinion Date <u>April 29, 2005</u>	Date Accountant Report Submitted To State: <u>June 30, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address <u>10 South Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043-7903</u>
Accountant Signature 			

City of Harper Woods, Michigan

**Financial Report
with Supplemental Information
December 31, 2004**

City of Harper Woods, Michigan

Mayor and City Council

Mayor
Mayor Pro Tem

Kenneth A. Poynter
Cheryl A. Costantino

Council Member
Council Member
Council Member
Council Member
Council Member

Vivian M. Sawicki
Michael P. Monaghan
John M. Szymanski
Hugh Marshall
Daniel S. Palmer

City Administration

City Manager

James E. Leidlein

City Clerk

Mickey D. Todd

City Treasurer

Enid L. Pierson

Finance Director

Laura Stowell

City Auditors

Plante & Moran, PLLC

City of Harper Woods, Michigan

General Comments

The City is administered under a council-manager form of government in accordance with a home rule charter as adopted by the electors on October 24, 1951 and subsequently amended.

The elective officials of the City consist of six council members and the mayor, all of whom are nominated and elected from the City at large. Three of its members are elected to the council every two years for four-year terms. The mayor is elected every two years for a two-year term.

City officials who are appointed by and sit at the pleasure of the council are the manager, clerk, and treasurer. All other administrative officers are appointed by the manager, subject to confirmation by the council.

City of Harper Woods, Michigan

Contents

Introductory Section

Administrative Organizational Chart	I
--	----------

Financial Section

Report Letter	2-3
----------------------	------------

Management's Discussion and Analysis	4-8
---	------------

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Assets	9
Statement of Activities	10-11

Fund Financial Statements:

Governmental Funds:

Balance Sheet	12-13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17

Proprietary Funds:

Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20

Fiduciary Funds:

Statement of Net Assets	21
Statement of Changes in Net Assets	22

Notes to Financial Statements	23-41
-------------------------------	-------

City of Harper Woods, Michigan

Contents (Continued)

Required Supplemental Information

Budgetary Comparison Schedules:	
General Fund	42
Major Special Revenue Funds:	
Library Fund	43
Municipal Improvements Fund	44
Employees' Retirement System:	
Schedule of Funding Progress	45
Schedule of Employer Contributions	46

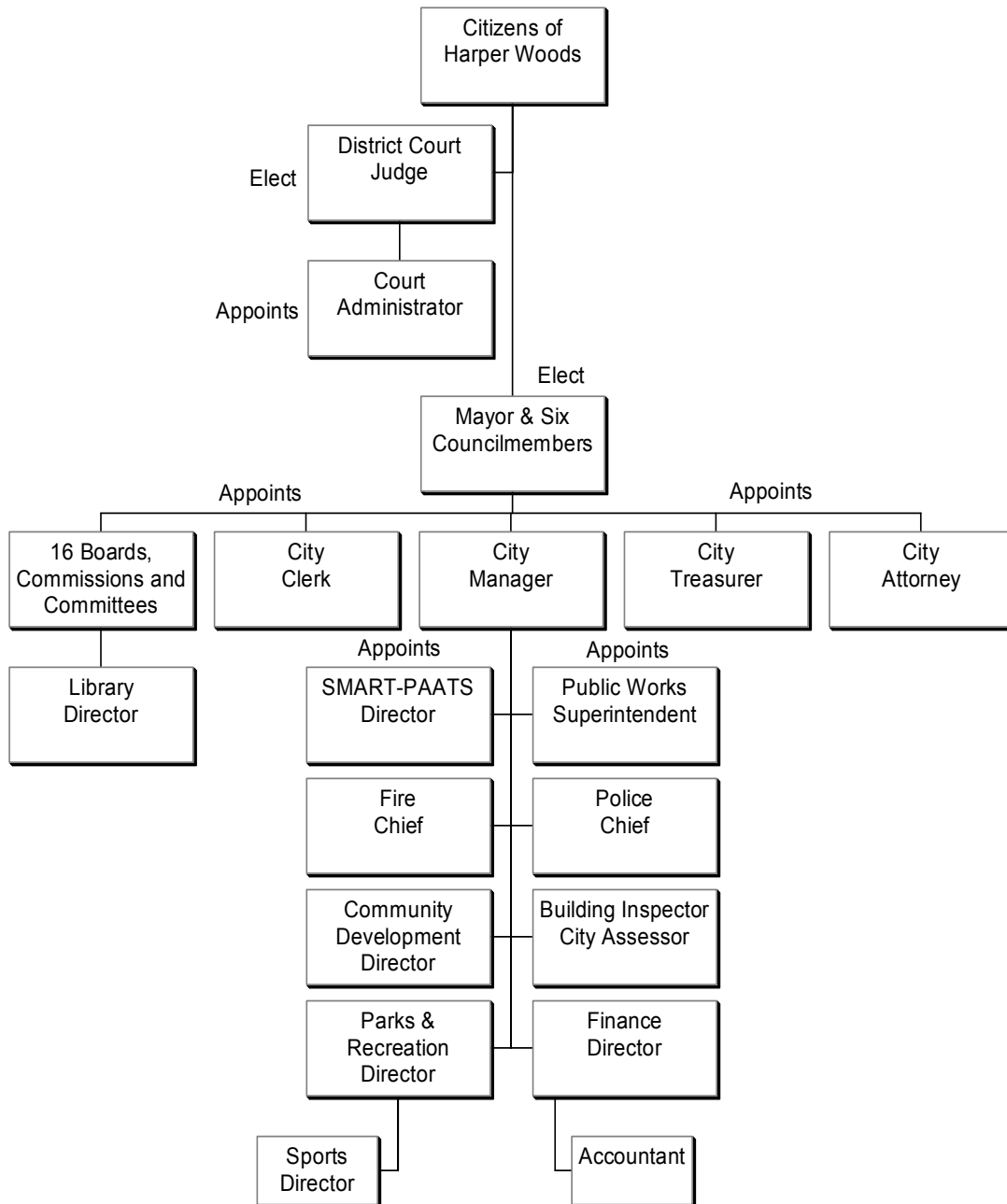
Other Supplemental Information

Nonmajor Governmental Funds:	
Combining Balance Sheet	47-48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	49-50
Fiduciary Funds - Combining Statement of Assets and Liabilities - Agency Funds	51
Internal Service Funds:	
Combining Statement of Net Assets	52
Combining Statement of Revenue, Expenses, and Changes in Net Assets	53
Combining Statement of Cash Flows	54

Introductory Section

City of Harper Woods, Michigan

CITY OF HARPER WOODS ADMINISTRATIVE ORGANIZATION CHART



Financial Section

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Harper Woods, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Harper Woods, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and the Employees' Retirement System schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members
of the City Council
City of Harper Woods, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harper Woods, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 29, 2005

City of Harper Woods, Michigan

Management's Discussion and Analysis

This section of the annual financial report for the City of Harper Woods, Michigan (the "City") is our discussion and analysis of the City's performance for the fiscal year ended December 31, 2004. Please read it in conjunction with the City's financial statements which follow.

Using this Annual Report

This annual report includes a series of financial statements. There are two kinds of statements that follow that present different views of the City. The statement of net assets and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This kind of statement measures the cost of providing services for the year and shows whether the taxpayers have funded the full cost of providing government services and uses the accrual basis of accounting.

The second kind of statement is the fund financial statements, which show the status of the City in more detail. The fund financial statements also show how the services and programs of the City were financed in the short-term. The fund statements include the Fiduciary Fund statements, which provide information about activities in which the City acts solely as a trustee or agent for benefit of those outside the government.

The City of Harper Woods as a Whole

The following table shows, in a condensed format, the assets as of December 31, 2004 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 26,968	\$ 24,822	\$ 512	\$ 308	\$ 27,480	\$ 25,130
Noncurrent assets -						
Capital assets	23,760	23,968	3,386	3,515	27,146	27,483
Total assets	50,728	48,790	3,898	3,823	54,626	52,613
Liabilities						
Current liabilities	13,462	11,057	528	315	13,990	11,372
Long-term liabilities	17,416	17,184	-	-	17,416	17,184
Total liabilities	30,878	28,241	528	315	31,406	28,556
Net Assets						
Invested in capital assets -						
Net of related debt	9,080	8,485	3,386	3,515	12,466	12,000
Restricted	5,347	5,935	-	-	5,347	5,935
Unrestricted net assets						
(deficit)	5,423	6,129	(16)	(7)	5,407	6,122
Total net assets	<u>\$ 19,850</u>	<u>\$ 20,549</u>	<u>\$ 3,370</u>	<u>\$ 3,508</u>	<u>\$ 23,220</u>	<u>\$ 24,057</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets decreased 3.5 percent from a year ago - from \$24.1 million to \$23.2 million. The governmental activities decreased by 3.4 percent. This is a result of the nonmajor funds (local street, major street, refuse and separation pay funds) incurring losses this year. The business-type activities net assets decreased by 3.9 percent as a result of the operating loss incurred in the Water and Sewer Fund.

The following table shows the change in net assets for the year ended December 31, 2004 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 3,014	\$ 3,400	\$ 2,662	\$ 2,528	\$ 5,676	\$ 5,928
Operating grants and contributions	1,039	1,050	-	-	1,039	1,050
General revenue:						
Property taxes	8,676	8,174	-	-	8,676	8,174
State-shared revenues	1,581	1,712	-	-	1,581	1,712
Interest	206	165	19	19	225	184
Franchise fees	151	139	-	-	151	139
Miscellaneous	250	173	-	-	250	173
Total revenue	14,917	14,813	2,681	2,547	17,598	17,360
Program Expenses						
General government	3,863	3,376	-	-	3,863	3,376
Public safety	6,175	5,972	-	-	6,175	5,972
Public works	3,949	3,765	-	-	3,949	3,765
Recreation and culture	1,120	1,017	-	-	1,120	1,017
Interest on long-term debt	509	528	-	-	509	528
Water and sewer	-	-	2,819	3,026	2,819	3,026
Total program expenses	15,616	14,658	2,819	3,026	18,435	17,684
Net Change in Net Assets	(699)	155	(138)	(479)	(837)	(324)
Net Assets - Beginning of year	20,549	20,394	3,508	3,987	24,057	24,381
Net Assets - End of year	<u>\$ 19,850</u>	<u>\$ 20,549</u>	<u>\$ 3,370</u>	<u>\$ 3,508</u>	<u>\$ 23,220</u>	<u>\$ 24,057</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Total revenues for the City's governmental activities were \$14.9 million for 2004. The City experienced an approximate 33 percent decrease in state-shared revenues and declining interest income for the year.

Expenses for the City's governmental activities totaled \$15.6 million for 2004. Total expenses increased by approximately 7 percent with general government and recreation and culture activities showing the largest increases. The other activities which provide direct City services (e.g., public safety, public works, etc.) are showing small increases or have decreased over the last year.

The following represents the most significant financial highlights for the year ended December 31, 2004:

The City's diligence to curb spending was able to offset the large reduction in revenue, mainly caused by state-shared revenue cuts. The City did not make reductions in City service areas, but instead maintained or increased spending in the service areas. Capital outlays were reduced. There were several long-term employees who left or retired whose payouts resulted in higher wages reported than expected.

Interest income showed some improvement; however, it did not fully recover to the anticipated level. The City continues to look at its investing policy to find the best opportunities for good rates of return.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide potable water to our residents. The City pumps its sewage to the City of Detroit for treatment and disposal. This year's operations were not positive, as the City of Detroit's Water and Sewer Department increased our rates. We increased our water and sewer rates in January 2004; however, there was not enough to offset the City of Detroit's increases.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities. The City's major funds are the General Fund, Library Fund, Municipal Improvements Fund, General Obligation Bonds Fund, Storm Drain Fund, and the Water and Sewer Fund.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$5.2 million in 2004. The General Fund is supported primarily by property taxes and state-shared revenue.

The Library Fund records the activities of the Library and this year, the activity of the renovation. The Library is funded primarily by property taxes and the construction bond. The Storm Drain Fund manages the Milk River Drain, debt, and maintenance. It is funded by a storm water utility charge based on property area and imperviousness. The General Obligation Bond Fund records activity for the street bond and the Municipal Improvement Fund is held for special improvements and was funded by cable proceeds when the City sold its interest in the Grosse Pointe Cable System several years ago. It is the policy of the City that the principal of the Municipal Improvement Fund be held for major capital improvements only. The interest earnings have been utilized for major equipment outlays.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor the budget, and, if necessary, amend the budget to take into account unanticipated events that occur during the year. There were amendments made to a few of the funds in 2004. Significant revenue budget variances were due to the declining state-shared revenue payments and interest rates on invested cash. Significant expenditure variances were due to the cost of health care as well as employee wages and retiree payouts.

Capital Asset and Debt Administration

At the end of fiscal year 2004, the City had \$27.1 million invested in capital assets (land, buildings, equipment, vehicles, water, sewer, and storm lines).

Debt reported in these financial statements is related to the three general obligation street bonds issued in 1995, 1999, and 2001, the Milk River-County Drain Bonds, and smaller debt issues related to the police radio system purchase. The Library Bonds were also issued in the current year. The street bonds have a maturity in 2014, the Milk River various bonds have final maturity in 2012, the Library bond has a maturity in 2024, and radio system debt matures in 2006.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face challenges with the cuts in state-shared revenue, the impact of Proposal A, and the reduction in interest revenues we experienced in the past. The City will need to watch the budget closely and consider amendments as necessary.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

On the expense side of the equation, medical insurance continues to be a rising cost and a rising concern. The City has researched alternative plans and switched to a new plan for employees whose union contracts have been negotiated. Water rates will be increased in 2005, and because of the rates imposed by the City of Detroit, we will need to monitor the budget in the Water and Sewer Fund closely, and again, make amendments and adjustments as necessary.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with an overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Harper Woods finance department.

City of Harper Woods, Michigan

Statement of Net Assets December 31, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 15,797,500	\$ 1,575,752	\$ 17,373,252
Receivables:			
Taxes	4,770,581	-	4,770,581
Customers	-	791,418	791,418
Interest and other	59,642	-	59,642
Service fee	807,432	-	807,432
Other governmental units	635,068	-	635,068
Internal balances (Note 5)	1,860,606	(1,860,606)	-
Inventories and prepaid expenses	205,998	5,597	211,595
Restricted cash and investments (Note 3)	2,750,316	-	2,750,316
Investment in joint venture (Note 9)	80,654	-	80,654
Capital assets (Note 4):			
Assets not being depreciated	1,224,426	-	1,224,426
Assets being depreciated - Net	22,535,155	3,385,964	25,921,119
Total assets	50,727,378	3,898,125	54,625,503
Liabilities			
Accounts payable	433,578	460,258	893,836
Accrued and other liabilities	652,142	67,658	719,800
Rehabilitation escrow	290,076	-	290,076
Deferred revenue	10,536,796	-	10,536,796
Noncurrent liabilities (Note 6):			
Due within one year	1,549,047	-	1,549,047
Due in more than one year	17,416,462	-	17,416,462
Total liabilities	30,878,101	527,916	31,406,017
Net Assets			
Invested in capital assets - Net of related debt	9,079,963	3,385,964	12,465,927
Restricted:			
Streets and highways	889,035	-	889,035
Debt service	2,498,142	-	2,498,142
Refuse	1,526,467	-	1,526,467
Drug enforcement	112,312	-	112,312
Library	320,609	-	320,609
Unrestricted net assets (deficit)	5,422,749	(15,755)	5,406,994
Total net assets	<u>\$ 19,849,277</u>	<u>\$ 3,370,209</u>	<u>\$ 23,219,486</u>

City of Harper Woods, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Governmental activities:				
General government	\$ 3,863,083	\$ 1,234,634	\$ 89,730	\$ -
Public safety	6,175,499	301,159	58,579	-
Public works	3,949,026	1,367,913	878,238	-
Recreation and culture	1,119,821	110,389	12,438	-
Interest on long-term debt	509,497	-	-	-
Total governmental activities	15,616,926	3,014,095	1,038,985	-
Business-type activities - Water and sewer	2,818,985	2,661,677	-	-
Total	<u><u>\$ 18,435,911</u></u>	<u><u>\$ 5,675,772</u></u>	<u><u>\$ 1,038,985</u></u>	<u><u>\$ -</u></u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Cable franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2004

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
<hr/>		
\$ (2,538,719)	\$ -	\$ (2,538,719)
(5,815,761)	-	(5,815,761)
(1,702,875)	-	(1,702,875)
(996,994)	-	(996,994)
<u>(509,497)</u>	<u>-</u>	<u>(509,497)</u>
(11,563,846)	-	(11,563,846)
<u>-</u>	<u>(157,308)</u>	<u>(157,308)</u>
(11,563,846)	(157,308)	(11,721,154)
8,675,915	-	8,675,915
1,580,865	-	1,580,865
206,425	18,952	225,377
150,790	-	150,790
<u>250,471</u>	<u>-</u>	<u>250,471</u>
10,864,466	18,952	10,883,418
(699,380)	(138,356)	(837,736)
<u>20,548,657</u>	<u>3,508,565</u>	<u>24,057,222</u>
<u>\$ 19,849,277</u>	<u>\$ 3,370,209</u>	<u>\$ 23,219,486</u>

City of Harper Woods, Michigan

	Major Funds		
	Special Revenue Funds		
	General Fund	Municipal Improvements Fund	Library Fund
Assets			
Cash and investments (Note 3)	\$ 3,209,792	\$ 2,638,629	\$ 611,399
Receivables:			
Taxes	3,548,296	-	291,451
Interest and other	18,069	12,651	523
Service fee	-	-	-
Other governmental units	456,355	-	-
Inventories and prepaid expenses	198,013	-	-
Restricted cash and investments (Note 3)	-	-	2,750,316
Due from other funds (Note 5)	4,724,836	500,270	-
Total assets	\$ 12,155,361	\$ 3,151,550	\$ 3,653,689
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 173,183	\$ -	\$ 6,843
Accrued and other liabilities	476,387	-	11,657
Due to other funds	2,598,933	74,380	607
Rehabilitation escrow	-	-	-
Deferred revenue	6,808,111	-	563,657
Total liabilities	10,056,614	74,380	582,764
Fund Balances			
Reserved:			
Inventories and prepaid expenses	198,013	-	-
Construction	-	-	2,750,316
Drug law enforcement	-	-	-
Unreserved:			
Designated (Note 12)	440,000	3,077,170	126,555
Undesignated	1,460,734	-	194,054
Unreserved - Reported in Nonmajor Special Revenue Funds:			
Designated (Note 12)	-	-	-
Undesignated	-	-	-
Total fund balances	2,098,747	3,077,170	3,070,925
Total liabilities and fund balances	\$ 12,155,361	\$ 3,151,550	\$ 3,653,689

**Governmental Funds
Balance Sheet
December 31, 2004**

Debt Service Funds			
General Obligation Bonds Fund	Storm Drain Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,380,146	\$ 3,739,250	\$ 3,200,335	\$ 15,779,551
515,593	-	415,241	4,770,581
3,675	-	24,723	59,641
-	807,432	-	807,432
-	-	178,713	635,068
-	-	7,985	205,998
-	-	-	2,750,316
-	-	3,790,131	9,015,237
\$ 2,899,414	\$ 4,546,682	\$ 7,617,128	\$ 34,023,824
\$ 174	\$ 136,612	\$ 107,110	\$ 423,922
10,550	-	32,595	531,189
1,649,966	776,571	2,868,586	7,969,043
-	-	290,076	290,076
986,322	1,387,759	790,947	10,536,796
2,647,012	2,300,942	4,089,314	19,751,026
-	-	7,985	205,998
-	-	-	2,750,316
-	-	112,312	112,312
-	90,000	-	3,733,725
252,402	2,155,740	-	4,062,930
-	-	1,686,000	1,686,000
-	-	1,721,517	1,721,517
252,402	2,245,740	3,527,814	14,272,798
\$ 2,899,414	\$ 4,546,682	\$ 7,617,128	\$ 34,023,824

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended December 31, 2004

Fund Balance - Total Governmental Funds \$ 14,272,798

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	23,401,094
Investments in joint ventures are not reported in the funds	80,654
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(17,429,934)
Accrued interest payable	(116,304)
Compensated absences	(1,535,575)
Internal Service Funds are included as part of governmental activities	<u>1,176,544</u>

Net Assets - Governmental Activities \$ 19,849,277

City of Harper Woods, Michigan

	Major Funds		
	Special Revenue Funds		
	General	Municipal	Library Fund
	Fund	Improvements Fund	
Revenue			
Property taxes	\$ 6,554,240	\$ -	\$ 354,568
Federal sources	1,493	-	-
State sources	1,607,202	-	12,438
Charges for services	1,646,399	-	-
Interest	35,434	44,228	1,784
Service fees	-	-	-
Licenses and permits	95,426	-	-
Miscellaneous revenue	340,397	-	46,212
Total revenue	10,280,591	44,228	415,002
Expenditures			
Current:			
General government	4,868,118	-	3,800
Public safety	5,151,493	-	-
Public works	517,994	-	-
Recreation and culture	561,378	-	385,140
Capital outlay	-	-	463,852
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	11,098,983	-	852,792
Excess of Revenue Over (Under) Expenditures	(818,392)	44,228	(437,790)
Other Financing Sources (Uses)			
Proceeds from bond issuance	-	-	3,100,000
Transfers in	593,000	-	-
Transfers out	-	-	-
Total other financing sources (uses)	593,000	-	3,100,000
Net Change in Fund Balances	(225,392)	44,228	2,662,210
Fund Balances - Beginning of year	2,324,139	3,032,942	408,715
Fund Balances - End of year	<u>\$ 2,098,747</u>	<u>\$ 3,077,170</u>	<u>\$ 3,070,925</u>

Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2004

Debt Service Funds			
General		Other	
Obligation		Nonmajor	Total
Bonds	Storm Drain	Governmental	Governmental
Fund	Fund	Funds	Funds
\$ 930,531	\$ -	\$ 742,317	\$ 8,581,656
-	-	116,610	118,103
-	-	789,280	2,408,920
-	-	94,420	1,740,819
20,990	59,816	43,681	205,933
-	1,388,120	-	1,388,120
-	-	-	95,426
-	-	48,074	434,683
951,521	1,447,936	1,834,382	14,973,660
-	-	130,503	5,002,421
-	-	10,112	5,161,605
-	617,822	2,243,792	3,379,608
-	-	-	946,518
-	-	-	463,852
500,000	565,232	-	1,065,232
426,844	150,941	-	577,785
926,844	1,333,995	2,384,407	16,597,021
24,677	113,941	(550,025)	(1,623,361)
-	-	-	3,100,000
-	-	-	593,000
-	-	(268,000)	(268,000)
-	-	(268,000)	3,425,000
24,677	113,941	(818,025)	1,801,639
227,725	2,131,799	4,345,839	12,471,159
\$ 252,402	\$ 2,245,740	\$ 3,527,814	\$ 14,272,798

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Change in Fund Balances of Governmental Funds **\$ 1,801,639**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	1,084,041
Depreciation expense	(1,169,137)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities	1,153,101
---	-----------

Proceeds from issuance of bonds is a revenue in the governmental funds, but not in the statement of activities	(3,100,000)
--	-------------

Interest expense is recorded when incurred in the statement of activities	(19,581)
---	----------

Income from a joint venture is reported in the statement of activities as it is earned; this revenue is reported in the governmental funds when distributions are received:	
Joint venture income	8,674
Joint venture distribution	(65,280)

Compensated absence liabilities are recorded when earned in the statement of activities	164,971
---	---------

Internal Service Funds are included as part of governmental activities	(557,808)
--	-----------

Change in Net Assets of Governmental Activities **\$ (699,380)**

City of Harper Woods, Michigan

Proprietary Funds Statement of Net Assets December 31, 2004

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and investments (Note 3)	\$ 1,575,752	\$ 17,949
Customer receivables	791,418	-
Due from other funds (Note 5)	97,280	2,086,546
Inventories	5,597	-
Total current assets	2,470,047	2,104,495
Noncurrent assets - Capital assets being depreciated - Net (Note 4)	3,385,964	358,487
Total assets	5,856,011	2,462,982
Current Liabilities		
Accounts payable	460,258	9,655
Accrued and other liabilities	67,658	4,649
Due to other funds	1,957,886	1,272,134
Total current liabilities	2,485,802	1,286,438
Net Assets		
Investment in capital assets - Net of related debt	3,385,964	358,487
Unrestricted net assets (deficit)	(15,755)	818,057
Total net assets	<u>\$ 3,370,209</u>	<u>\$ 1,176,544</u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

	Business-type Activities	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Customer billings	\$ 2,659,632	\$ -
Billings to other funds	-	192,478
Other revenue	<u>2,045</u>	<u>-</u>
Total operating revenue	2,661,677	192,478
Operating Expenses		
Cost of materials	-	45,386
Water supply and sewage disposal	2,032,716	-
Maintenance and operation	382,518	193,356
General and administrative expenses	274,547	63,067
Depreciation	<u>129,204</u>	<u>123,642</u>
Total operating expenses	<u>2,818,985</u>	<u>425,451</u>
Operating Loss	(157,308)	(232,973)
Nonoperating Revenue - Interest income	18,952	165
Other Financing Uses - Transfers out	<u>-</u>	<u>(325,000)</u>
Change in Net Assets	(138,356)	(557,808)
Net Assets - Beginning of year	<u>3,508,565</u>	<u>1,734,352</u>
Net Assets - End of year	<u><u>\$ 3,370,209</u></u>	<u><u>\$ 1,176,544</u></u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2004

	Business-type Activities Water and Sewer Fund	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers and other funds	\$ 2,596,116	\$ 28,684
Payments to suppliers, employees, and other funds	(2,540,829)	(22,782)
Other receipts	2,045	-
Net cash provided by operating activities	57,332	5,902
Cash Flows from Investing Activities - Interest received on investments	18,952	165
Net Increase in Cash and Cash Equivalents	76,284	6,067
Cash and Cash Equivalents - Beginning of year	1,499,468	11,882
Cash and Cash Equivalents - End of year	<u>\$ 1,575,752</u>	<u>\$ 17,949</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (157,308)	\$ (232,973)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	129,204	123,642
Changes in assets and liabilities:		
Receivables	(63,516)	-
Due from other funds	-	(162,726)
Inventories	(2,368)	-
Accounts payable	211,578	3,850
Due to other funds	(62,419)	275,827
Accrued and other liabilities	2,161	(1,718)
Net cash provided by operating activities	<u>\$ 57,332</u>	<u>\$ 5,902</u>

There were no significant noncash investing or financing activities during the year ended December 31, 2004.

City of Harper Woods, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2004

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System	Agency Funds
Assets		
Cash	\$ 103	\$ 1,069,662
Investments:		
Mutual funds	18,306,845	-
U.S. government securities	4,548,155	-
Corporate bonds	8,351,935	-
Common stocks	7,332,256	-
Accrued interest and dividends receivable	168,667	-
Total assets	<u>38,707,961</u>	<u>\$ 1,069,662</u>
Liabilities		
Tax collections distributable	-	\$ 1,022,115
Bond deposits	-	27,068
Due to other governmental units	169,293	20,479
Total liabilities	<u>169,293</u>	<u>\$ 1,069,662</u>
Net Assets - Held in trust for pension benefits	<u><u>\$ 38,538,668</u></u>	

City of Harper Woods, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended December 31, 2004

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System
Additions	
Investment income:	
Interest and dividends	\$ 1,380,979
Net appreciation in fair value of investments	2,247,641
Less investment expenses	<u>(259,233)</u>
Net investment income	3,369,387
Employee contributions	<u>442,046</u>
Total additions	3,811,433
Deductions	
Benefit payments	1,865,362
Refunds to employees	949,443
General and administrative expenses	<u>9,561</u>
Total deductions	<u>2,824,366</u>
Net Increase in Net Assets	987,067
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>37,551,601</u>
End of year	<u><u>\$ 38,538,668</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Harper Woods, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harper Woods, Michigan:

Reporting Entity

The City is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these general purpose financial statements present the City of Harper Woods, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The District Court, although legally separate from the City, is included as an Agency Fund since the City has a fiduciary responsibility for funds received at the District Court. The City has also established a Brownfield Redevelopment Authority; however, there was no financial activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major funds:

Governmental Funds

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Library Fund accounts for the City's library activities. Financing is provided through a tax levy and charges to customers.
- The Municipal Improvements Fund accounts for resources that have been earmarked for future capital projects within the City.
- The General Obligation Bonds Fund accounts for the annual payment of principal and interest on outstanding unlimited tax general obligation bond issues. Financing is provided through a tax levy.
- The Storm Drain Fund accounts for the annual payment of principal and interest on the City's share of Wayne County storm drain improvement bonds as well as related maintenance costs on the drains. Financing is provided through a service fee charged to all properties within the City.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major Enterprise Fund:

- The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

- Internal Service Funds are used to account for the financing of services by one department to other departments of the City primarily on a cost-reimbursement basis.
- The Pension and Other Employee Benefit Trust Fund accounts for the activities of the Employees' Retirement System that accumulates resources for pension payments to qualified employees.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's ongoing operations. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31 and the related taxes become a lien at that time. The taxes are billed on December 1 of the following year. These taxes are due on February 14 with a final collection date of February 28 before they are added to the county tax rolls.

The 2003 taxable valuation of the City totaled \$375,197,000, on which ad valorem taxes levied consisted of 17.46 mills for the City's operating purposes, 2.50 mills for debt service, 0.94 mills for the library, and 2.00 mills for rubbish removal. The ad valorem taxes raised \$6,554,000 for general operations, \$931,000 for debt service, \$355,000 for the library, and \$742,000 for rubbish removal. These amounts are recorded in their respective funds as tax revenue.

Deferred Revenue - Property taxes billed during the month of December 2004 will be used to finance 2005 operations. As such, these taxes are recorded as deferred revenue in the respective funds at December 31, 2004.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories in the governmental funds are recorded at cost; fund balance has been reserved in an equal amount. Certain payments, such as insurance premiums, reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure:

Roads	25 years
Sidewalks	20 years
Storm drains	40 years
Land improvements	15-20 years
Buildings and improvements	25-50 years
Vehicles	5-15 years
Office furnishings	10-20 years
Machinery and equipment	5-20 years
Water and sewer system	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary fund statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are also approved by the City Council. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2004 has not been calculated. During the current year, the budget was not amended for any fund.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgetary comparison schedules are presented on the same basis of accounting used in preparing the adopted budget.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund, activity, and line item. The level of budgetary control adopted by the City Council is the activity level. Expenditures at this level in excess of appropriations are a violation of State law. A comparison of the adopted budget with the actual revenue and expenditures for the year for the General Fund and the major Special Revenue Funds is presented as required supplemental information following the notes to the financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Safety - Law enforcement expenditures in the General Fund were approximately \$217,000 higher than the appropriation as a result of overtime expenditures being higher than the amount anticipated. There were no other significant budget variances.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with State law.

The Employees' Retirement System is also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments (Continued)

At December 31, 2004, the City's cash and investments are included in the accompanying financial statements in the "cash and investments" and "restricted cash and investments" line items and are classified by GASB Statement No. 3 in the following categories:

	Primary Government	Fiduciary Funds
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 10,623,345	\$ 1,069,765
Investments in securities, mutual funds, and similar vehicles	9,497,793	38,539,191
Petty cash or cash on hand	2,430	-
Total	<u>\$ 20,123,568</u>	<u>\$ 39,608,956</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not cleared or of deposits in transit) at \$10,334,000 for the primary government and \$688,000 for the fiduciary funds. All deposits are held in the name of the City of Harper Woods and approximately \$800,000 of the deposits was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the City at December 31, 2004.

Risk Category 1 - Insured or registered, or securities held by the City or its agent in the City's name;

Risk Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments (Continued)

Risk Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At December 31, 2004, the City's investment balances were categorized as follows:

	Category				Reported Amount (Fair Value)
	1	2	3	Not Categorized	
Primary government:					
U.S. government agency securities	\$ 1,396,111	\$ -	\$ -	\$ -	\$ 1,396,111
Investments not subject to categorization:					
Bank investment pool funds	-	-	-	6,778,738	6,778,738
Mutual funds	-	-	-	1,322,944	1,322,944
Total primary government	<u>\$ 1,396,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,101,682</u>	<u>\$ 9,497,793</u>
Fiduciary funds:					
Corporate bonds	\$ -	\$ 8,351,935	\$ -	\$ -	\$ 8,351,935
U.S. government and agency securities	-	4,548,155	-	-	4,548,155
Corporate stock	-	7,332,256	-	-	7,332,256
Investments not subject to categorization - Mutual funds	-	-	-	18,306,845	18,306,845
Total fiduciary funds	<u>\$ -</u>	<u>\$ 20,232,346</u>	<u>\$ -</u>	<u>\$ 18,306,845</u>	<u>\$ 38,539,191</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares. Management believes that the investments in the funds comply with the City's investment policy and State law.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 760,575	\$ -	\$ -	\$ 760,575
Construction in process	-	463,851	-	463,851
Subtotal	760,575	463,851	-	1,224,426
Capital assets being depreciated:				
Infrastructure:				
Roads	14,476,559	582,932	-	15,059,491
Sidewalks	1,119,044	-	-	1,119,044
Storm drains	10,890,938	-	-	10,890,938
Land improvements	16,502	-	-	16,502
Buildings and improvements	1,096,526	-	69,040	1,027,486
Vehicles	2,835,013	7,845	-	2,842,858
Office furnishings	31,476	12,064	-	43,540
Machinery and equipment	2,209,897	86,388	-	2,296,285
Subtotal	32,675,955	689,229	69,040	33,296,144
Accumulated depreciation:				
Infrastructure:				
Roads	2,485,782	590,721	-	3,076,503
Sidewalks	563,482	55,952	-	619,434
Storm drains	3,203,830	272,273	-	3,476,103
Land improvements	4,938	908	-	5,846
Buildings and improvements	623,859	21,631	1,381	644,109
Vehicles	1,766,062	245,722	-	2,011,784
Office furnishings	6,700	1,944	-	8,644
Machinery and equipment	813,557	105,009	-	918,566
Subtotal	9,468,210	1,294,160	1,381	10,760,989
Net capital assets being depreciated	23,207,745	(604,931)	67,659	22,535,155
Net capital assets	\$ 23,968,320	\$ (141,080)	\$ 67,659	\$ 23,759,581

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 4 - Capital Assets (Continued)

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Business-type Activities				
Capital assets being depreciated:				
Water system	\$ 5,110,535	\$ -	\$ -	\$ 5,110,535
Sewer system	1,240,998	-	-	1,240,998
Machinery and equipment	<u>62,132</u>	<u>-</u>	<u>-</u>	<u>62,132</u>
Subtotal	6,413,665	-	-	6,413,665
Accumulated depreciation:				
Water system	1,908,455	107,909	-	2,016,364
Sewer system	927,910	21,295	-	949,205
Machinery and equipment	<u>62,132</u>	<u>-</u>	<u>-</u>	<u>62,132</u>
Subtotal	<u>2,898,497</u>	<u>129,204</u>	<u>-</u>	<u>3,027,701</u>
Net capital assets being depreciated	<u>\$ 3,515,168</u>	<u>\$ (129,204)</u>	<u>\$ -</u>	<u>\$ 3,385,964</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 23,063
Public safety	164,562
Public works	1,046,387
Recreation and culture	<u>60,148</u>
Total governmental activities	<u>\$ 1,294,160</u>
Business-type activity - Water and Sewer	<u>\$ 129,204</u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 5 - Interfund Receivables, Payables, and Transfers

Below are the interfund receivables of the City at December 31, 2004:

Receivable Fund	Payable Fund	Amount
General Fund	Library Fund	\$ 140,543
	Storm Drain Fund	341,251
	General Obligations Bond Fund	71,598
	Water and Sewer Fund	1,293,012
	Nonmajor governmental funds	1,606,298
	Internal Service Funds	1,272,134
	Total General Fund	4,724,836
Municipal Improvements Fund	General Fund	500,000
	General Obligations Bonds Fund	270
Total Municipal Improvements Fund		500,270
Nonmajor Governmental Funds	General Fund	1,000,000
	General Obligations Bonds Fund	1,578,098
	Storm Drain Fund	338,040
	Municipal Improvements Fund	858
	Water and Sewer Fund	231,113
	Nonmajor governmental funds	642,022
Total nonmajor governmental funds		3,790,131
Internal Service Funds	General Fund	1,098,933
	Library Fund	607
	Municipal Improvements Fund	73,522
	Water and Sewer Fund	433,763
	Nonmajor governmental funds	479,721
Total Internal Service Funds		2,086,546
Water and Sewer Fund	Storm Drain Fund	97,280
Total interfund receivables		<u>\$ 11,199,063</u>

Interfund balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers during the year ended December 31, 2004 consisted of transfers of \$325,000 from the Self-insurance Internal Service Fund, \$180,000 from the Separation Pay Nonmajor Governmental Fund, and \$88,000 from the Refuse Nonmajor Governmental Fund to the General Fund.

Note 6 - Long-term Debt

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Unlimited Tax General Obligation Bonds:							
1995 General Obligation Road Bonds:							
Amount of issue - \$5,000,000	4.00% -	\$300,000 -					
Maturing through 2011	5.40%	\$500,000	\$ 3,325,000	\$ -	\$ (350,000)	\$ 2,975,000	\$ 350,000
1999 General Obligation Road Bonds:							
Amount of issue - \$5,000,000	4.125% -	\$50,000 -					
Maturing through 2014	5.00%	\$1,000,000	4,800,000	-	(100,000)	4,700,000	100,000
2001 General Obligation Road Bonds:							
Amount of issue - \$1,500,000	4.00% -	\$50,000 -					
Maturing through 2014	5.00%	\$250,000	1,400,000	-	(50,000)	1,350,000	100,000
2004 General Obligation Library Bonds:							
Amount of issue - \$3,100,000	3.30% -	\$25,000 -					
Maturing through 2024	5.00%	\$325,000	-	3,100,000	-	3,100,000	25,000
Total general obligation bonds			9,525,000	3,100,000	(500,000)	12,125,000	575,000
County Drain Obligations - Milk River Drain	2.00% -	\$565,232 -					
	4.65%	\$688,108	5,678,683	-	(565,232)	5,113,451	581,030
Installment purchase obligations:							
Amount of issue - \$440,770	5.83% -						
Maturing through 2006	5.91%		279,352	-	(87,869)	191,483	93,017
Accumulated employee benefits			1,700,546	-	(164,971)	1,535,575	300,000
Total governmental activities			\$ 17,183,581	\$ 3,100,000	\$ (1,318,072)	\$ 18,965,509	\$ 1,549,047

The City has pledged its full faith and credit to pay its proportionate share of the outstanding debt issued by the Milk River Inter-County Drainage District. The total Milk River Inter-County Drainage District debt consists of three loans and two bond issues with an original face value of approximately \$31,750,000 and an outstanding balance of approximately \$16,411,000 at December 31, 2004.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the governmental bond and installment purchase obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2005	\$ 1,249,047	\$ 709,043	\$ 1,958,090
2006	1,345,295	627,937	1,973,232
2007	1,364,382	572,672	1,937,054
2008	1,508,692	515,484	2,024,176
2009	1,574,490	452,927	2,027,417
2010-2014	8,113,028	1,274,537	9,387,565
2015-2019	900,000	400,531	1,300,531
2020-2024	1,375,000	1,838,362	3,213,362
Total	<u>\$ 17,429,934</u>	<u>\$ 6,391,493</u>	<u>\$ 23,821,427</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 7 - Risk Management (Continued)

The City is also exposed to risk of loss as a result of flood damage to resident properties caused by sewage overflows. Previously, incidents such as these were generally considered “acts of God” for which the City was not liable. However, as a result of a recent Michigan Supreme Court ruling, the City could now be liable for flood damages due to sewage overflows. Public Act 222 of 2001 has tempered this court ruling by requiring affected customers to prove that an action by the City was more than 50 percent of the cause in order to support any claim against the City. In May 2002, the City Council adopted an ordinance consistent with the new State statute to further protect the City from sewer backup claims. The City has not purchased commercial insurance to cover such claims. There is no liability outstanding as of December 31, 2004 and the City believes that there are sufficient resources in the Self-insurance Internal Service Fund to cover potential claims that may arise in the near term.

Note 8 - Retirement System

Plan Description

The City of Harper Woods Employees’ Retirement System (the “System”) is the administrator of a single-employer defined benefit pension plan (the “Plan”) that covers all full-time employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 83 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 104 current active employees. The Plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City’s competitive bargaining units and requires a contribution from the employees ranging from 5.0 percent to 7.25 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the Plan are financed through investment earnings.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 8 - Retirement System (Continued)

Annual Pension Cost

For the year ended December 31, 2004, the City was not required to contribute to the Plan. The annual required contribution is determined as part of an actuarial valuation at December 31, 2003, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.5 percent to 9.3 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Reserves

As of December 31, 2004, the Plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 7,181,574
Reserve for retired benefit payments	14,779,112

Three-year Trend Information

	Year Ended December 31		
	2004	2003	2002
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Joint Venture

The City is a member of the Grosse Pointes-Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe, Grosse Pointe Shores, Grosse Pointe Woods, Mount Clemens, and the Township of Clinton. The City Council appoints one member to the joint venture's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of costs.

Note 9 - Joint Venture (Continued)

The City's interest in the net assets of the Authority totaled \$80,654 at December 31, 2004 and is reported as part of the governmental activities in the statement of net assets. The Authority is expected to sell real estate assets in future years. It is unknown what benefit the City will realize as a result of these transactions. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional benefit or burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 85 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$881,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care and other postemployment benefits (all benefits other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity is as follows:

Cumulative shortfall - January 1, 2004	\$ (194,080)
2004 construction code revenue	87,670
2004 construction code expenditures:	
Direct costs	\$ 103,720
Estimated indirect costs	<u>10,372</u>
Total construction code expenditures	<u>114,092</u>
Excess of expenditures over revenue	<u>(26,422)</u>
Cumulative shortfall - December 31, 2004	<u>\$ (220,502)</u>

Note 12 - Designated Fund Balance

Designated fund balance in the governmental funds at December 31, 2004 is as follows:

	General Fund	Library Fund	Municipal Improvements Fund	Storm Drain Fund	Other Nonmajor Governmental Funds
Subsequent year's budget	\$ 440,000	\$ 32,800	\$ -	\$ 90,000	\$ 686,000
Separation pay	-	-	-	-	1,000,000
Municipal improvement	-	-	3,077,170	-	-
Capital projects	-	93,755	-	-	-
Total	<u>\$ 440,000</u>	<u>\$ 126,555</u>	<u>\$ 3,077,170</u>	<u>\$ 90,000</u>	<u>\$ 1,686,000</u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2004

Note 13 - Commitments and Contingencies

Construction Commitments - The City of Harper Woods has an active construction project at year end. As of December 31, 2004, the City's commitments with the contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Library renovations	\$ 451,000	\$ 1,940,000

Required Supplemental Information

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Amended Budget
Revenue				
Property taxes	\$ 6,530,000	\$ 6,530,000	\$ 6,554,240	\$ 24,240
Federal sources	-	-	1,493	1,493
State sources	1,759,500	1,759,500	1,607,202	(152,298)
Charges for services	1,544,000	1,544,000	1,646,399	102,399
Interest	80,000	80,000	35,434	(44,566)
Licenses and permits	108,500	108,500	95,426	(13,074)
Other	234,500	234,500	340,397	105,897
Total revenue	10,256,500	10,256,500	10,280,591	24,091
Expenditures - Current				
General government:				
City Council	25,000	25,000	22,488	2,512
District Court	558,800	558,800	535,097	23,703
City Manager	159,400	159,400	142,467	16,933
City Clerk/Elections	203,700	203,700	209,681	(5,981)
General services administration	591,100	650,600	674,757	(24,157)
Public transit	224,500	257,500	268,126	(10,626)
Other	2,918,900	2,992,200	3,015,502	(23,302)
Public safety:				
Law enforcement	3,288,400	3,388,400	3,605,406	(217,006)
Fire coverage	1,415,900	1,415,900	1,438,283	(22,383)
Other	116,100	116,100	107,804	8,296
Public works	534,000	534,000	517,994	16,006
Recreation and culture	551,400	551,400	561,378	(9,978)
Total expenditures	10,587,200	10,853,000	11,098,983	(245,983)
Excess of Expenditures Over Revenue	(330,700)	(596,500)	(818,392)	(221,892)
Other Financing Sources - Transfer in	-	-	593,000	593,000
Net Change in Fund Balances	(330,700)	(596,500)	(225,392)	371,108
Fund Balance - January 1, 2004	2,324,139	2,324,139	2,324,139	-
Fund Balance - December 31, 2004	<u>\$ 1,993,439</u>	<u>\$ 1,727,639</u>	<u>\$ 2,098,747</u>	<u>\$ 371,108</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Library Fund Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Amended Budget
Revenue				
Property taxes	\$ 347,300	\$ 347,300	\$ 354,568	\$ 7,268
State sources	12,000	12,000	12,438	438
Interest	2,000	3,875	1,784	(2,091)
Other	35,875	35,875	46,212	10,337
Total revenue	397,175	399,050	415,002	15,952
Expenditures - Current				
General government - General services administration	3,800	3,800	3,800	-
Recreation and culture	421,800	421,800	385,140	36,660
Capital outlay	-	1,205,250	463,852	741,398
Total expenditures	425,600	1,630,850	852,792	778,058
Excess of Revenue Over (Under) Expenditures	(28,425)	(1,231,800)	(437,790)	794,010
Other Financing Sources - Proceeds from bond issuance	-	3,100,000	3,100,000	-
Net Change in Fund Balances	(28,425)	1,868,200	2,662,210	794,010
Fund Balance - January 1, 2004	408,715	408,715	408,715	-
Fund Balance - December 31, 2004	<u>\$ 380,290</u>	<u>\$ 2,276,915</u>	<u>\$ 3,070,925</u>	<u>\$ 794,010</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Municipal Improvements Fund Year Ended December 31, 2004

	Original and Final Amended Budget	Actual	Variance with Budget
Revenue - Interest income	\$ 58,500	\$ 44,228	\$ (14,272)
Other Financing Uses - Transfers out	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Excess of Revenue Over Other Financing Uses	8,500	44,228	35,728
Fund Balance - January 1, 2004	<u>3,032,942</u>	<u>3,032,942</u>	<u>-</u>
Fund Balance - December 31, 2004	<u><u>\$ 3,041,442</u></u>	<u><u>\$ 3,077,170</u></u>	<u><u>\$ 35,728</u></u>

City of Harper Woods, Michigan

Required Supplemental Information Employees' Retirement System Schedule of Funding Progress December 31, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
12/31/98	\$ 34,914,381	\$ 28,603,097	\$ (6,311,284)	122.1	\$ 4,873,335	(129.5)
12/31/99	39,346,905	30,659,575	(8,687,330)	128.3	5,178,301	(167.8)
12/31/00	42,068,214	31,082,713	(10,985,501)	135.3	5,400,958	(203.4)
12/31/01	43,635,585	34,855,217	(8,780,368)	125.2	5,433,995	(161.6)
12/31/02	42,319,742	36,049,125	(6,270,617)	117.4	5,619,098	(111.6)
12/31/03	42,381,685	38,175,120	(4,206,565)	111.0	6,038,012	(69.7)

City of Harper Woods, Michigan

Required Supplemental Information Employees' Retirement System Schedule of Employer Contributions December 31, 2004

Year Ended December 31	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
1999	12/31/1998	\$ 268,564	100
2000	12/31/1999	-	N/A
2001	12/31/2000	-	N/A
2002	12/31/2001	-	N/A
2003	12/31/2002	-	N/A
2004	12/31/2003	-	N/A

The information presented above was determined as part of the actuarial valuations at the dates indicated.

Additional information as of December 31, 2003, the date of the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.5%-9.3%
*Includes inflation at	5.5%
Cost of living adjustments	None

Other Supplemental Information

City of Harper Woods, Michigan

	Nonmajor Special				
	Major Streets	Local Streets	Library	Community Development Block Grant	Loan Revolving
Assets					
Cash and investments	\$ 555,410	\$ 15,055	\$ 2,156,907	\$ 348	\$ 360,442
Receivables:					
Taxes	-	-	415,241	-	-
Interest and other	-	9	1,522	-	23,053
Other governmental units	82,481	35,055	-	44,762	16,415
Inventories and prepaid expenses	7,985	-	-	-	-
Due from other funds	923,908	1,709,262	94,914	62,047	-
Total assets	\$ 1,569,784	\$ 1,759,381	\$ 2,668,584	\$ 107,157	\$ 399,910
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 16,475	\$ 27,431	\$ 63,204	\$ -	\$ -
Accrued and other liabilities	10,836	6,303	15,456	-	-
Due to other funds	840,218	1,538,867	274,405	105,262	109,834
Rehabilitation escrow	-	-	-	-	290,076
Deferred revenue	-	-	789,052	1,895	-
Total liabilities	867,529	1,572,601	1,142,117	107,157	399,910
Fund Balances					
Reserved:					
Inventories and prepaid expenses	7,985	-	-	-	-
Drug law enforcement	-	-	-	-	-
Unreserved:					
Designated:					
Subsequent year's budget	451,000	31,000	204,000	-	-
Separation pay	-	-	-	-	-
Undesignated	243,270	155,780	1,322,467	-	-
Total fund balances	702,255	186,780	1,526,467	-	-
Total liabilities and fund balances	\$ 1,569,784	\$ 1,759,381	\$ 2,668,584	\$ 107,157	\$ 399,910

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004**

Revenue Funds		Total Nonmajor Governmental Funds
Drug Law Enforcement	Separation Pay	
\$ 112,173	\$ -	\$ 3,200,335
-	-	415,241
139	-	24,723
-	-	178,713
-	-	7,985
-	1,000,000	3,790,131
<u>\$ 112,312</u>	<u>\$ 1,000,000</u>	<u>\$ 7,617,128</u>

\$ -	\$ -	\$ 107,110
-	-	32,595
-	-	2,868,586
-	-	290,076
-	-	790,947

- - 4,089,314

- - 7,985
112,312 - 112,312

-	-	686,000
-	1,000,000	1,000,000
-	-	1,721,517

112,312 1,000,000 3,527,814

\$ 112,312 \$ 1,000,000 \$ 7,617,128

City of Harper Woods, Michigan

	Nonmajor Special				
	Major Streets	Local Streets	Library	Community Development Block Grant	Loan Revolving
Revenue					
Property taxes	\$ -	\$ -	\$ 742,317	\$ -	\$ -
Federal sources	-	-	-	116,610	-
State sources	553,945	235,335	-	-	-
Charges for services	-	-	94,420	-	-
Interest	1,131	167	39,536	-	2,676
Miscellaneous revenue	23,643	10,133	-	-	2,810
Total revenue	578,719	245,635	876,273	116,610	5,486
Expenditures - Current					
General government	59,130	22,000	7,000	40,200	-
Public safety	-	-	-	-	-
Public works	742,581	489,321	929,994	76,410	5,486
Recreation and culture	-	-	-	-	-
Total expenditures	801,711	511,321	936,994	116,610	5,486
Excess of Expenditures Over Revenue	(222,992)	(265,686)	(60,721)	-	-
Other Financing Uses - Transfers out	-	-	(88,000)	-	-
Net Change in Fund Balances	(222,992)	(265,686)	(148,721)	-	-
Fund Balances - Beginning of year	925,247	452,466	1,675,188	-	-
Fund Balances - End of year	<u>\$ 702,255</u>	<u>\$ 186,780</u>	<u>\$ 1,526,467</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2004

Revenue Funds		Total Nonmajor Governmental Funds
Drug Law Enforcement	Separation Pay	
\$ -	\$ -	\$ 742,317
-	-	116,610
-	-	789,280
-	-	94,420
171	-	43,681
<u>11,488</u>	<u>-</u>	<u>48,074</u>
11,659	-	1,834,382
2,173	-	130,503
10,112	-	10,112
-	-	2,243,792
<u>-</u>	<u>-</u>	<u>-</u>
<u>12,285</u>	<u>-</u>	<u>2,384,407</u>
(626)	-	(550,025)
<u>-</u>	<u>(180,000)</u>	<u>(268,000)</u>
(626)	(180,000)	(818,025)
<u>112,938</u>	<u>1,180,000</u>	<u>4,345,839</u>
<u><u>\$ 112,312</u></u>	<u><u>\$ 1,000,000</u></u>	<u><u>\$ 3,527,814</u></u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds - Agency Funds December 31, 2004

	<u>Tax Collection</u>	<u>District Court</u>	<u>Total</u>
Assets - Cash	<u>\$ 1,022,115</u>	<u>\$ 47,547</u>	<u>\$ 1,069,662</u>
Liabilities			
Tax collections distributable	\$ 1,022,115	\$ -	\$ 1,022,115
Bond deposits	-	27,068	27,068
Due to other governmental units	-	20,479	20,479
Total liabilities	<u>\$ 1,022,115</u>	<u>\$ 47,547</u>	<u>\$ 1,069,662</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds December 31, 2004

	Equipment Fund	Self-insurance Fund	Total
Assets			
Current assets:			
Cash and investments	\$ 17,949	\$ -	\$ 17,949
Due from other funds	987,613	1,098,933	2,086,546
			-
Total current assets	1,005,562	1,098,933	2,104,495
Noncurrent assets - Capital assets being depreciated - Net	358,487	-	358,487
Total assets	1,364,049	1,098,933	2,462,982
Current Liabilities			
Accounts payable	9,655	-	9,655
Accrued and other liabilities	4,649	-	4,649
Due to other funds	1,272,134	-	1,272,134
Total current liabilities	1,286,438	-	1,286,438
Net Assets			
Invested in capital assets	358,487	-	358,487
Unrestricted net assets (deficit)	(280,876)	1,098,933	818,057
Total net assets	\$ 77,611	\$ 1,098,933	\$ 1,176,544

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended December 31, 2004

	Equipment Fund	Self-insurance Fund	Total
Operating Revenue - Billings to other funds	\$ 192,478	\$ -	\$ 192,478
Operating Expenses			
Cost of materials	45,386	-	45,386
Maintenance and operation	193,356	-	193,356
General and administrative expenses	62,000	1,067	63,067
Depreciation	123,642	-	123,642
Total operating expenses	424,384	1,067	425,451
Operating Loss	(231,906)	(1,067)	(232,973)
Nonoperating Revenue - Interest income	165	-	165
Other Financing Uses - Transfers out	-	(325,000)	(325,000)
Change in Net Assets	(231,741)	(326,067)	(557,808)
Net Assets - Beginning of year	309,352	1,425,000	1,734,352
Net Assets - End of year	<u>\$ 77,611</u>	<u>\$ 1,098,933</u>	<u>\$ 1,176,544</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended December 31, 2004

	Equipment Fund	Self-insurance Fund	Total
Cash Flows from Operating Activities			
Receipts from other funds	\$ 28,684	\$ -	\$ 28,684
Payments to suppliers, employees, and other funds	<u>(22,782)</u>	<u>-</u>	<u>(22,782)</u>
Net cash provided by operating activities	5,902	-	5,902
Cash Flows from Investing Activities - Interest received on investments	<u>165</u>	<u>-</u>	<u>165</u>
Net Increase in Cash and Cash Equivalents	6,067	-	6,067
Cash and Cash Equivalents - Beginning of year	<u>11,882</u>	<u>-</u>	<u>11,882</u>
Cash and Cash Equivalents - End of year	<u>\$ 17,949</u>	<u>\$ -</u>	<u>\$ 17,949</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (231,906)	\$ (1,067)	\$ (232,973)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	123,642	-	123,642
Changes in assets and liabilities:			
Due from other funds	(163,793)	1,067	(162,726)
Due to other funds	275,827	-	275,827
Accounts payable	3,850	-	3,850
Accrued and other liabilities	<u>(1,718)</u>	<u>-</u>	<u>(1,718)</u>
Net cash provided by operating activities	<u>\$ 5,902</u>	<u>\$ -</u>	<u>\$ 5,902</u>

There were no significant noncash investing or financing activities during the year ended December 31, 2004.

April 29, 2005

Honorable Mayor and Members
of the City Council
City of Harper Woods
19617 Harper Avenue
Harper Woods, MI 48225

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Harper Woods for the year ended December 31, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended December 31, 2004, General Fund expenditures exceeded revenues by approximately \$225,000. Fund balance at December 31, 2004, totaled approximately \$2,099,000. Of this amount, \$638,000 is reserved and designated for specific purposes and \$1,461,000 is undesignated. The undesignated portion represents approximately 13 percent of budgeted 2005 expenditures. This percentage is consistent with prior years and within the range typically expected by rating agencies.

As you are aware, the City continues to be faced with budgetary challenges. Many challenges, including further uncertainties regarding State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. The City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations will be dependent on the ability to maintain adequate fund balance reserves.

STATE REVENUE SHARING

The continued sluggishness in the State's economy continues to directly impact revenue sharing payments. State shared revenue accounts for approximately 15 percent of the City's General Fund revenues. Though the State's sales tax collections (the sole source of revenue sharing payments to local units of government) have been near what was expected, the State continues to experience

A member of



A worldwide association of independent accounting firms

budget problems as a result of disappointing collections of State income tax and single business tax. For the time being, local units of government have been spared additional revenue sharing cuts for the State's fiscal years ending September 30, 2005 and 2006, as the governor's proposed 2006 budget holds the State revenue sharing payments at approximately the 2004/2005 levels. However, there can be no guarantees that further revenue sharing cuts will not be made in future periods as the State continues to battle with its budget difficulties.

As a result of the significant uncertainty that surrounds State revenue sharing payments, we recommend that the City continue to evaluate the impact of the revenue sharing reductions as you amend your 2005 budget and plan for your 2006 budget. Updated information can be obtained from the Department of Treasury's web site at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur.

PROPERTY TAXES

As you will recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%

The 2003 inflation factor, which was the lowest level of inflation in the last ten years, was used for property taxes levied in the City's year ended December 31, 2004. As indicated above, growth in existing property is significantly limited due to Proposal A.

The Headlee Amendment to the Michigan Constitution also limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As a result of Headlee "roll backs," the City was able to levy only 17.46 mills for general operating purposes in 2004 as compared with the charter operating limit of 20.00 mills. This resulted in approximately \$953,000 of tax revenue that the City was not able to levy.

WATER AND SEWER FUND

As of December 31, 2004, the Water and Sewer Fund has a working capital and unrestricted net asset deficit totaling approximately \$16,000 each. Working capital is an important measure of the financial health of an enterprise fund such as the Water and Sewer Fund. In addition, while the Water and Sewer Fund has a positive cash balance at December 31, 2004; this is attributed to the interfund payables that have not yet been settled. Taking into account the interfund payables, the Water and Sewer Fund would have a cash deficiency.

We recommend that the City perform an analysis of the long-term financial needs of the Water and Sewer Fund, including a measure of working capital needs. Adequate working capital reserves are essential to provide the Fund with the ability to absorb the natural cycles of cash collections and disbursements and to handle unforeseen repairs and other emergencies. We would be happy to assist the City in performing such an analysis.

RETIREE HEALTH CARE

As you are aware, the City provides post employment benefits for all eligible employees that are funded currently from the General Fund. For the year ended December 31, 2004, the cost of these benefits amounted to approximately \$881,000 representing an increase of approximately 20 percent over the 2003 amount.

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to obtain an actuarial valuation of the obligation to provide retiree health care benefits. In addition, the City's funding status or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the financial statements. Lastly, the City will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. The changes required under GASB Statement 45 will be effective in 2008. We would be happy to assist the City in further understanding the provisions of GASB Statement 45.

DEPOSIT AND INVESTMENT DISCLOSURES

The Governmental Accounting Standards Board recently issued Statement Number 40, *Deposit and Investment Risk Disclosures*, which is effective for the City's December 31, 2005 year-end. GASB

Statement 40 amends the current deposit and investment risk disclosures previously prescribed by GASB Statement 3. Under GASB Statement 40, the City will continue to disclose applicable investment risks due to custodial credit risk as well as new disclosures for concentrations of credit risk, interest rate fluctuation risk and foreign currency risk, if applicable. In addition, the City must disclose its investment policy addressing each applicable risk. We encourage you to review your investment policies and update as necessary, to ensure the policies adequately address the risks associated with each type of investment made by the City. We will work with the Finance Department and provide any guidance requested.

ACCOUNTING AND ADMINISTRATIVE MATTERS

- Inter-fund receivables and payables are used as a matter of convenience in circumstances where a fund of the City will incur an expenditure on behalf of another fund and to allocate revenue and expenditures between funds without the actual transfer of cash. However, as you are aware, many of the City's resources are restricted or earmarked for specific purposes and any interest earnings on these funds must also be restricted for the same purposes. Accordingly, it is important for the City to settle inter-fund receivables and payables on a timely basis to avoid situations where interest earnings are allocated to the incorrect account or fund. In addition, significant inter-fund balances can distort financial statements by overstating assets and liabilities and hinder financial analysis. We recommend that the City implement procedures to ensure that inter-fund balances are addressed on a periodic basis.
- During our internal controls testing, we noted that records maintained by the Finance Department for employee accumulated vacation time differed from the records maintained in the various City departments. It is our understanding that the various departments are responsible for tracking employee vacation time. In order to improve the internal control over employee compensated absences, we recommend that the Finance Department, which includes the payroll function, be responsible for tracking vacation time. In addition, the Finance Department should investigate and reconcile variances between the employees' department record and the Finance Department's records.

CONDITION OF ACCOUNTING RECORDS

We would like to compliment the City Council and administration for the continued positive improvement made in the condition of the City's financial records and related documentation for the year ended December 31, 2004. Our testing has indicated that the City's finance and treasury departments have maintained and improved internal control over cash collection, cash disbursement and payroll functions. We encourage the administration to commit to a plan of continuous improvement in the timeliness and accuracy of the financial reporting system, subject to cost/benefit constraints. Such improvements will increase control over the City's assets and provide the best information possible to the City Council and administration for analysis and decision making.

Honorable Mayor and Members
of the City Council
City of Harper Woods

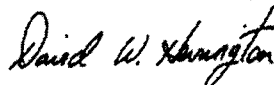
-5-

April 29, 2005

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. As always, we are pleased to discuss these comments, information presented in the financial statements or any other matters with you at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David W. Herrington



David V. Grubb

plante

moran